COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0526-01
Bill No.: HJR 17
Subject: Constitutional Amendment; Appropriations; General Assembly
Type: Original
Date: March 5, 2013

Bill Summary: This proposes a constitutional amendment prohibiting state appropriations in any fiscal year from exceeding certain limits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	$0 to ($7,100,000)	$0	$0 or ($82,874,263)
Total Estimated Net Effect on General Revenue Fund	**$0 to ($7,100,000)**	**$0**	**$0 or ($82,874,263)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Budget Reserve	$0	$0	$0 or ($268,100,738)
Cash Operating Reserve Fund	$0	$0	$0 or Less than $350,975,000
Taxpayer Protection Stabilization	$0	$0	$0 or Unknown
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0 or $82,874,263**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **University of Missouri's Economic & Policy Analysis Research Center** assume this resolution proposes a constitutional amendment that would prohibit state appropriations in any fiscal year from exceeding certain limits, create two new funds within the state treasury and modify the existing Budget Reserve Fund.

This amendment would add Section 23(a) to Article IV limiting the growth of total state General Revenue appropriations for any fiscal year to the summed percent of the annual rate of inflation and the annual percent change in the population of Missouri. In fiscal years where Net General Revenue collections exceed Total State General Revenue appropriations beyond 1 ½ %, any amount in excess between 1 ½ % and 2 ½ % will be allotted to pay off state debt, and amounts in excess of 2 ½ % will be transferred to the newly created "Taxpayer Protection Stabilization Fund" outlined below.

This amendment would repeal the current Section 27(a) in Article IV and enact a new Section 27(a) that would create the "Cash Operating Reserve Fund." The initial balance of this fund would come from 67% of the former Budget Reserve Fund balance on July 1st following adoption and would retain a balance at 5% of the value of Net General Revenue collections of the previous fiscal year, funded by transfers from the General Revenue Fund. If at the end of any fiscal year where the balance of this fund exceeds 5% of the value of Net General Revenue collections from the previous fiscal year, the excess will be transferred to the newly created "Taxpayer Protection Stabilization Fund" outlined below. The commissioner of administration, throughout any fiscal year, may transfer from the "Cash Operating Reserve Fund" to the General Revenue Fund amounts that may be necessary for the cash requirements of the state. By May 16th of the same fiscal year, the commissioner must transfer back from the General Revenue Fund the entirety of these funds plus interest.

This amendment would add Section 27(c) to Article IV and create a new Budget Reserve Fund whose initial balance would come from 33% of the former Budget Reserve Fund balance on July 1st following the adoption of this amendment and would retain a balance at 7% of the value of Net General Revenue collections of the previous fiscal year, funded by transfers from the General Revenue Fund. If at the end of any fiscal year where the balance of this fund exceeds 7% of the value of Net General Revenue collections from the previous fiscal year, the excess will be transferred to the newly created "Taxpayer Protection Stabilization Fund" outlined below. The governor, with approval from each house, may use Budget Reserve funds to supplement existing appropriations or to provide disaster relief. "The full amount of any funds appropriated and expended (from this fund) … shall be paid back to the fund no later than five years from the date of original transfer."

ASSUMPTION (continued)

Lastly, this amendment would add Section 27(d) to Article IV and create the "Taxpayer Protection Stabilization Fund," funded by the sources outlined above. When the commissioner determines the balance of this fund is sufficient to provide for a temporary reduction of all state individual income tax rates rounded to the nearest one quarter of one percent, the commissioner will notify the Department of Revenue and tax rates will be reduced for that tax year. Note: Currently, we estimate the amount sufficient to provide for a temporary reduction of all state individual income tax rates by one quarter of one percent is the difference between the Net Tax Due: $229,944,000.

This resolution would have no impact on Net General Revenue collections. Capping appropriations and transferring excess collections to pay off state debt or to newly created funds would have no impact on Net General Revenue collections. Although there would be an increase in required balances of these new funds from 7 ½ % to 12% of Net General Revenue collections from the previous fiscal year, these required balances do not impact Net General Revenue collections. As well, the exact amount of reduced collections from individual taxpayers from the potential reduction in tax rates in Section 27(d) will be offset by a transfer from the "Taxpayer Protection Fund."

Officials at the **Office of Administration - Budget and Planning** (**BAP**) assume to fulfill the resolution's requirements of the Commissioner of Administration, BAP will need one additional FTE to track the excess funds outlined in the legislation and research, analyze and calculate any reductions in state income tax rates. An OA Economist position (range 32), fringes, and associated E&E are estimated to cost $92,472.

In addition, the General Revenue fund will be negatively impacted by $345 million because of the change in the percentage requirements for the newly created Cash Operating and Budget Reserve funds (see table below).

Amounts in excess of the required balances are transferred to the Taxpayer Protection Stabilization Fund until a sufficient amount exists to reach a temporary reduction of at least one quarter of one percent of all state individual income tax rates. Each one quarter of one percent reduction in income tax rates will reduce State Revenues by an estimated $204.7 to $273.0 million. BAP defers to the UM-EPARC for a more precise estimate of the impact.

The proposal could have an impact on the level of state services that can be provided as a result of the caps it imposes on General Revenue appropriations and net General Revenue collections.

ASSUMPTION (continued)

Budget Reserve Fund = BRF
Cash Operating Reserve Fund = CORF

497,790,404	BRF balance as of 7/15/2012 (7.5% of GR)
333,519,571	67% Amount to be placed in the CORF per HJR 17
164,270,833	33% Amount to be placed in the BRF per HJR 17
497,790,404	Total to be placed in the CORF and BRF per HJR 17

CORF	BRF	TOTAL	
$350,975,000	$491,365,000	$842,340,000	Amount required to be in the funds for FY 2014 (5% CORF and 7% BRF)
$333,519,571	$164,270,833	$497,790,404	BRF balance to be split between the two funds.
$17,455,429	$327,094,167	$344,549,596	General revenue required to be transferred to the funds.
$17,455,429	$65,418,833	$82,874,263	Amount required to be transferred in year 1
$0	$65,418,833	$65,418,833	Annual amounts required to be transferred in years 2-5

N/A = excess amount in the CORF to be transferred to the Taxpayer Protection Stabilization Fund, which is established in Section 27(d) 1.

Oversight assumes that since BAP is charged with doing revenue calculations yearly because of the requirements of the Hancock amendment that they already have staff who can do the calculations required under this proposal. Should it become necessary to hire staff to carry out the duties of this proposal, BAP could request funding through the appropriation process

Oversight assumes that since this is a constitutional amendment, it will have no effect on state funds unless it is passed. Oversight assumes that the requirements of this legislation will result in money being transferred from General Revenue into the Budget Reserve Fund and the Cash Operating Reserve Fund and will net to zero.

Oversight assumes that if this constitutional amendment is adopted in the November 2014, then due to the wording of this proposal it would go into effect on July 1, 2015 which is fiscal year 2016.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** stated this legislation would propose a constitutional amendment prohibiting state appropriation in any fiscal year from exceeding certain limits, which may impact the Division of Business and Community Services (BCS). BCS assumes an unknown impact.

The Tax Increment Financing Program, Missouri Downtown Economic Stimulus Act and Downtown Revitalization Preservation Program provide tax incentives for business and development in Missouri, which create additional state revenue. These programs create 100% new sales tax for Missouri and 50% is retained by the state. The other 50% is given back to the projects. If these General Revenue appropriations were limited, it would result in a loss of revenue because there would not be additional funding to provide incentives for new business growth.

Officials at the **Department of Economic Development - Division of Tourism** (**MDT**) assume the proposed constitutional amendment would jeopardize MDT's funding formula. MDT's funding formula is based on the sales tax collected in 17 Tourism-Related SIC Codes. Pursuant to Section 620.467, RSMo, MDT shares the growth of sales tax revenues generated by the tourism industry with the general revenue fund. If the growth in sales tax revenues from the 17 SIC codes exceeds three percent, 50 percent of the growth, not to exceed $3 million, shall be deposited to the credit of the division of tourism supplemental revenue fund (TSRF), which is added to MDT's core budget from the previous year. The TSRF is funded through a General Revenue transfer to the TSRF. Limiting the increase in appropriations in any fiscal year, as proposed in this constitutional amendment, would limit the amount of growth to be appropriated to MDT. MDT estimates this loss to be $0 to ($3 million) per fiscal year.

Officials at the **Department of Revenue** (**DOR**) assume they would need to make form changes and computer programming changes to various tax systems. The estimated cost is $27,266 for 1,008 FTE hours.

DOR defers to BAP for impact to General and Total State Revenues.

Oversight DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Department of Transportation** (**MoDOT**) assume this proposal creates a constitutional amendment establishing limits to total state General Revenue appropriations. This would not affect our road and bridge appropriations, however, it may affect Multimodal

ASSUMPTION (continued)

appropriations that receive General Revenue.

Officials at the **Office of the Secretary of State** (**SOS**) assume each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be $7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

SOS's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.3 million historically appropriated in odd numbered fiscal years and $100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost $2.17 million to publish (an average of $434,000 per issue). Therefore, the Secretary of State's office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2014. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2014 (FY 2015). It is assumed the subject within this proposal could be on that

ASSUMPTION (continued)

ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2014.

Officials at the **Missouri House of Representatives**, **Missouri Senate**, **Office of the Governor** and the **Office of State Treasurer** each assume there is no fiscal impact to their organization from this proposal.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Transfer Out - to the Budget Reserve Fund	$0	$0	$0 or ($65,418,833)
Transfer Out - to the Cash Operating Reserve Fund	$0	$0	$0 or ($17,455,429)
Transfer Out - Secretary of State - reimbursement of election expenses	$0 or ($7,100,000)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 to ($7,100,000)**	**$0**	**$0 or ($82,874,263)**
BUDGET RESERVE FUND			
Transfer In - from General Revenue	$0	$0	$0 or $65,418,833
Transfer Out - to Cash Operating Reserve Fund	$0	$0	$0 or ($333,519,571)
ESTIMATED NET EFFECT ON OLD BUDGET RESERVE FUND	**$0**	**$0**	**$0 or ($268,100,738)**

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
CASH OPERATING RESERVE FUND			
Transfer In - from General Revenue	$0	$0	$0 or $17,455,429
Transfer In - from Old Budget Reserve Fund	$0	$0	$0 or $333,519,571
Transfer Out - to Taxpayer Protection Stabilization Fund	$0	$0	$0 or (Unknown)
ESTIMATED NET EFFECT ON CASH OPERATING RESERVE FUND	**$0**	**$0**	**$0 or Less than $350,975,000**
TAXPAYER PROTECTION STABILIZATION FUND			
Transfer In - from Cash Operating Fund	$0	$0	$0 or Unknown
ESTIMATED NET EFFECT ON TAXPAYER PROTECTION STABILIZATION FUND	**$0**	**$0**	**$0 or Unknown**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL ELECTION AUTHORITY FUNDS			
Transfer In - reimbursement of election expenses	$0 or $7,100,000	$0	$0
Cost - election expenses	$0 or ($7,100,000)	$0	$0
ESTIMATED NET EFFECT ON LOCAL ELECTION AUTHORITY FUNDS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Upon voter approval, this proposed constitutional amendment prohibits appropriations in any fiscal year from exceeding the total state general revenue appropriations from the previous year by more than the appropriations growth limit. The appropriations growth limit is the percentage that is the greater of zero or the sum of the annual rate of inflation and the annual percentage change in Missouri's population.

In any fiscal year when the net general revenue collections are more than 1.5% but less than 2.5% of the total state general revenue appropriations allowed, the excess moneys must be appropriated solely for state debt reduction. In any fiscal year when the net general revenue collections are in excess of 2.5% of the total state general revenue appropriations allowed, 67% of the excess is to be transferred to the Cash Operating Reserve Fund and 33% to the Budget Reserve Fund which are created by the resolution. Any revenue in excess of the specified limits of the funds will be transferred to the newly created Taxpayer Protection Stabilization Fund and used to temporarily reduce the individual income tax rate when the Commissioner of the Office of Administration determines that sufficient amounts exist in the fund for at least a .25% reduction. The resolution authorizes the General Assembly, by a simple majority vote, to appropriate moneys from the Taxpayer Protection Stabilization Fund as it deems necessary if the commissioner determines that total state general revenue appropriations will exceed projected state revenues.

FISCAL DESCRIPTION (continued)

Total state general revenue appropriations for any fiscal year may exceed the appropriations limit only if the Governor declares an emergency and the General Assembly, by a simple majority, approves an appropriation bill to meet the emergency. These appropriated funds cannot be included in the total appropriations amount for purposes of complying with the appropriation limit for the next fiscal year.

New or increased tax revenues or fees receiving voter approval will be exempt from the calculation of the appropriations growth limit for the year in which they are passed. Sixty-seven percent of the balance in the Budget Reserve Fund on July 1 of each year must be transferred to the Cash Operating Reserve Fund. If the balance in the Cash Operating Reserve Fund at the close of any fiscal year exceeds 5% of the net general revenue collected in the previous fiscal year, the commissioner must transfer the excess amount to the Taxpayer Protection Stabilization Fund.

In any fiscal year in which the Governor reduces expenditures below the amounts appropriated, the Governor may request an emergency appropriation from the Budget Reserve Fund. If the request is approved by a two-thirds majority in each house of the General Assembly, funds may be restored to any expenditure authorized by existing appropriations. If the balance in the Budget Reserve Fund at the end of a fiscal year exceeds 7% of the net general revenue collections for the previous fiscal year, the commissioner must transfer the excess funds to the Taxpayer Protection Stabilization Fund. If the balance is less than 7%, the difference must be transferred from the General Revenue Fund to that fund within five years.

The provisions of the resolution will expire five years after the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Missouri Department of Transportation
Missouri House of Representatives
Missouri Senate
Office of Administration
  Budget and Planning
Office of the Governor
Office of the Secretary of State
Office of State Treasurer
University of Missouri
  Economic & Policy Analysis Research Center

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